

Livingston Parish Sewer District Two

Annual Financial Statements

As of and for the Year Ended December 31, 2008

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date

8/26/09

LEROY J. CHUSTZ
Certified Public Accountant
A Professional Accounting Corporation

Livingston Parish Sewer District Two

Annual Financial Statements

As of and for the Year Ended December 31, 2008

**LIVINGSTON PARISH SEWER DISTRICT TWO
DECEMBER 31, 2008**

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INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

**Board Members of
Livingston Parish Sewer District Two
Denham Springs, Louisiana**

I have audited the accompanying basic financial statements of the **Livingston Parish Sewer District Two**, a component unit of the Livingston Parish Council, as of and for the year ended December 31, 2008, as listed in the Table of Contents. These basic financial statements are the responsibility of **Livingston Parish Sewer District Two's** management. My responsibility is to express an opinion on these basic financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the *Louisiana Governmental Audit Guide*. Those standards and the guide require that I plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position and the results of operations and cashflows of the **Livingston Parish Sewer District Two**, as of December 31, 2008, and for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated August 10, 2009, on my consideration of the **Livingston Parish Sewer District Two's** internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

My audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the **Livingston Parish Sewer District Two's** basic financial statements. The accompanying supplementary information, such as the Management's Discussion and Analysis and the Other Supplemental Schedules, as listed in the Table of Contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the **Livingston Parish Sewer District Two**, but is required by the Governmental Standards Board or other standards. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, I did not audit the information and express no opinion on it.

Leroy J. Chustz

Certified Public Accountant
August 10, 2009

Required Supplemental Information (Part I)

Management's Discussion and Analysis

Livingston Parish Sewer District Number Two

Management's Discussion and Analysis

As of and for the Year Ended December 31, 2008

Introduction

The Livingston Parish Sewer District Number Two (the District) is pleased to present its Annual Financial Statements developed in compliance with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - Management's Discussion and Analysis - For State and Local Governments* (GASB 34), and related standards.

The District's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the District's financial activity, (c) identify changes in the District's financial position, (d) identify any significant variations from the District's financial plan, and (e) identify individual fund issues or concerns.

Since Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes, and currently known facts, please read it in conjunction with the District's financial statements in this report.

Financial Highlights

- At December 31, 2008, total assets were \$10,817,430, and exceeded liabilities in the amount of \$5,215,824 (i.e., net assets). Of the total net assets, \$847,888 was unrestricted and available to support short-term operations, with the balance invested in capital assets, net of related debt.
- Total bonds payable increased to \$5,449,950 at December 31, 2008 compared to \$5,555,168 at the end of the prior fiscal period.
- For the year ended December 31, 2008, user fee revenues (water sales) remained relatively constant although total operating revenues increased by \$64,262 to \$1,029,585 as compared to \$965,323 for the fiscal year ending December 31, 2007, primarily due to an increase of \$34,792 in sewer maintenance fees and \$21,470 impact fees.
- The District's operating expenses increased by \$91,820 from \$1,194,588 for fiscal year ending December 31, 2008 to \$1,102,768 for the prior fiscal year. The increase is due primarily to increases in payroll of \$42,144 and \$52,881 in repairs and maintenance expenses, with both categories affected by increased costs due to Hurricane Gustav and increase plant operating costs.

Livingston Parish Sewer District Number Two

Management's Discussion and Analysis **As of and for the Year Ended December 31, 2008**

Overview of the Annual Financial Report

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The MD&A presents an overview of management's examination and analysis of Washington Parish Gas Utility District No. 1's financial condition and performance.

The financial statements report information on the District using full accrual accounting methods similar to those used in the private business sector. Financial statements include the Balance Sheet, Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. The Balance Sheet provides information about the nature and amount of the District's resources and obligations at year-end, and provides a basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

The Statement of Revenues, Expenses, and Changes in Net Assets, accounts for the revenues and expenses for the fiscal year, and provides information on how net assets changed during the year. This statement measures the success of the District's operations in a format that can be used to determine if the District has recovered its costs through user fees and other charges.

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities, and provides information on the source of cash receipts, what the cash was used for, and the total change in cash for the reporting period.

The notes to the financial statements provide required disclosures essential to an understanding of the financial statements. The notes present information about the District's accounting policies, significant account balances and activities, commitments, contingencies, and subsequent events, if any. Supplementary information includes a comparative budget schedule, key information schedules on operation of the District, and schedules detailing audit findings and management response, as well as required reports for Single Audit disclosure.

Financial Analysis

The purpose of financial analysis is to help determine whether Livingston Parish Sewer District Number Two is better off as a result of the current year's activities. In this analysis, data from two of the basic financial statements, the Balance Sheet, and the Statement of Revenues, Expenses, and Changes in Net Assets, are presented below in condensed format. These statements report the net assets, the difference between assets and liabilities, and the change in net assets, which provides information for indicating the financial condition of the District. Following these statements is a separate schedule summarizing and analyzing budget changes for the current fiscal year.

Livingston Parish Sewer District Number Two

**Management's Discussion and Analysis
As of and for the Year Ended December 31, 2008**

**Condensed Statement of Net Assets
2008 and 2007**

	<u>2008</u>	<u>2007</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Assets:				
Current and Other Assets	\$ 1,667,137	\$ 1,880,875	\$ (213,738)	-11%
Capital Assets	<u>9,150,293</u>	<u>9,415,787</u>	<u>(265,494)</u>	-3%
Total Assets	<u>10,817,430</u>	<u>11,296,662</u>	<u>(479,232)</u>	-4%
Liabilities:				
Long-Term Debt Outstanding	5,336,348	5,449,828	(113,480)	-2%
Other Liabilities	<u>265,258</u>	<u>252,993</u>	<u>12,265</u>	5%
Total Liabilities	<u>5,601,606</u>	<u>5,702,821</u>	<u>(101,215)</u>	-2%
Net Assets:				
Invested in Capital Assets, Net of Related Debt	3,576,927	3,734,092	(157,165)	-4%
Restricted for Capital Activity and Debt Service	791,009	746,765	44,244	6%
Unrestricted	<u>847,888</u>	<u>1,112,984</u>	<u>(265,096)</u>	-24%
Total Net Assets	<u>\$ 5,215,824</u>	<u>\$ 5,593,841</u>	<u>\$ (378,017)</u>	-7%

The major components of change for "Current and Other Assets" are a \$330,371 decrease in cash and cash equivalents and unrestricted investments, reflecting increased plant operating costs, the effects of Hurricane Gustav, and reservation of funds for debt requirements.

"Capital Assets" decreased by \$265,494, reflecting primarily asset additions of \$95,687 less the depreciation recorded on capital assets of \$361,181 for the fiscal year ending December 31, 2008.

"Total Net Assets" (total assets less total liabilities) decreased by \$378,016 for the fiscal year ending December 31, 2008, primarily because of the changes noted above and in the following presentation.

Livingston Parish Sewer District Number Two

**Management's Discussion and Analysis
As of and for the Year Ended December 31, 2008**

**Condensed Statement of Revenues, Expenses and Changes in Net Assets
2008 and 2007**

	<u>Year ended December 31, 2008</u>	<u>Year ended December 31, 2007</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Revenues:				
Operating Revenues	\$ 1,029,585	\$ 965,323	\$ 64,262	6%
Nonoperating Revenues	89,751	80,697	9,054	10%
Total Revenues	<u>1,119,336</u>	<u>1,046,020</u>	<u>73,316</u>	<u>7%</u>
Expenses:				
Depreciation Expense	361,181	351,609	9,572	3%
Other Operating Expense	833,407	751,159	82,248	10%
Nonoperating Expense	<u>302,764</u>	<u>275,298</u>	<u>27,466</u>	<u>9%</u>
Total Expenses	<u>1,497,352</u>	<u>1,378,066</u>	<u>119,286</u>	<u>8%</u>
Changes in Net Assets	(378,016)	(332,046)	(45,970)	12%
Beginning Net Assets	<u>5,593,840</u>	<u>5,925,887</u>	<u>(332,047)</u>	<u>-6%</u>
Ending Net Assets	<u>\$ 5,215,824</u>	<u>\$ 5,593,841</u>	<u>(378,017)</u>	<u>-7%</u>

While the Balance Sheet shows the change in financial position of net assets, the Statement of Revenues, Expenses, and Changes in Net Assets provides answers to the nature and scope of these changes. The above table gives an indication of how Livingston Parish Sewer District Number Two is being conservatively managed.

Total "Operating Revenues" (including sewer sales and revenues related to providing sewer maintenance and related services for customers) increased by \$62,262 primarily due to an increase of \$34,792 in sewer maintenance fees and \$21,470 impact fees.

Total "Other Operating Expenses" increased by \$82,248 from the prior fiscal year, primarily due to increases in payroll of \$42,144 and \$52,881 in repairs and maintenance expenses, with both categories affected by increased costs due to Hurricane Gustav and increase plant operating costs.

The District showed a loss of \$378,016 (change in net assets) for the fiscal year ending December 31, 2008, increase the loss by \$45,970 from the change in net assets of 332,046 for the fiscal year ending December 31, 2007.

Livingston Parish Sewer District Number Two

Management's Discussion and Analysis As of and for the Year Ended December 31, 2008

Budgetary Highlights

Livingston Parish Sewer District Number Two adopts an annual operating budget in accordance with requirements of the United States Department of Agriculture, Rural Utilities Service. This budget provides an estimate for the current fiscal year of the proposed expenditures and the revenues that will finance the operations of the District. The operating budget is adopted before the end of the prior fiscal year, and is amended by the Board of Commissioners after review of monthly budget-to-actual financial reports. A summary of the approved budget is presented below in a condensed format summarizing major revenue and expenditure categories, and is followed by analysis of significant variations between budget and actual amounts. Although not presented as a part of the basic financial statements, a more detailed schedule is also presented in "Schedule 1 - Budgetary Comparison Schedule", as supplementary information, following the footnotes to the financial statements.

Budget vs. Actual - Fiscal Year ended December 31, 2008

	Budget Year ended December 31, 2008	Actual Year ended December 31, 2008	Favorable (Unfavorable) Variance
Revenues:			
Operating Revenues	\$ 1,019,000	\$ 1,029,585	\$ 10,585
Nonoperating Revenues	<u>63,000</u>	<u>89,751</u>	<u>26,751</u>
Total Revenues	<u>1,082,000</u>	<u>1,119,336</u>	<u>37,336</u>
Expenses:			
Depreciation Expense	348,000	361,181	(13,181)
Other Operating Expense	809,500	833,407	(23,907)
Nonoperating Expense	<u>305,000</u>	<u>302,764</u>	<u>2,236</u>
Total Expenses	<u>1,462,500</u>	<u>1,497,352</u>	<u>(34,852)</u>
Income (Loss)	<u>(380,500)</u>	<u>(378,016)</u>	<u>2,484</u>

Operating Revenues were \$37,336 above budgeted revenues, and Total Expenses were \$34,852 less than budgeted, reflecting conservatism and compliance to the District's projection of revenue and expenses.

Livingston Parish Sewer District Number Two

Management's Discussion and Analysis As of and for the Year Ended December 31, 2008

Other Significant Trends and Account Changes

Included within this section is first a listing and analysis of general trends and operating data affecting the operation of the District. This is followed by an analysis of any significant account changes, not included within other sections of the Management's Discussion and Analysis.

General Operating Data

	December 31, 2008	December 31, 2007	Increase (Decrease)
Customers	964	941	23
Total Customers	964	941	23

Capital Assets and Debt Administration

Capital Assets

At the end of the fiscal year ending December 31, 2008, Livingston Parish Sewer District Number Two had \$9,150,293.00 (net of accumulated depreciation) recorded in capital assets. This includes gas line systems and improvements, investment in gas meters, storage and other equipment, such as office equipment, and maintenance equipment used to operate the gas system. The changes in capital assets are presented in the table below.

	December 31, 2008	December 31, 2007	Increase (Decrease)	Percentage Change
Capital Assets				
Buildings	393,252	393,252	-	0%
Machinery & Equipment	628,551	621,528	7,023	1%
Utility System	11,966,382	11,877,718	88,664	1%
Vehicles	106,357	106,357	-	0%
Subtotal	13,094,542	12,998,855	95,687	1%
Less: Accumulated Depreciation	(4,093,486)	(3,732,305)	361,181	-9%
Capital Assets Being Depreciated, Net	9,001,056	9,266,550	456,868	5%
Land	138,134	138,134	-	0%
Construction in Progress	11,103	11,103	-	0%
Net Capital Assets	9,150,293	9,415,787	456,868	5%

During the fiscal year ending December 31, 2008, capital assets increases included \$88,664 for the LA 16 Lockhart Relocation project, and \$7,023 for panel improvements. The total of \$11,103 for construction in progress consists of accumulated costs for planned oxidation pond improvements, with construction planned for fiscal year 2009. Depreciation expense for the fiscal year ending December 31, 2008, totaled \$361,181.

Long-Term Debt

Livingston Parish Sewer District Number Two

Management's Discussion and Analysis As of and for the Year Ended December 31, 2008

The primary source of long-term financing for Livingston Parish Sewer District Number Two is revenue bonds financed by the United States Department of Agriculture, Rural Utilities Service (RUS) and revenue bonds through a local financial institution.

With the issuance of the 2004 Series Bonds at an original issue amount of \$4,950,000, the District covenants that net income will be maintained at a sufficient level to cover all operating and maintenance expenses and to cover bond requirements including debt installments and bond deposit requirements agreed to with the issuance of revenue bonds for the District. The reader should refer to *Footnote 8 – Flow of Funds, Restrictions on Use* for a discussion of the District's compliance to bond covenants. The District for the fiscal year ending December 31, 2008 complied to all applicable bond covenants.

Future Economic Plans

The Livingston Parish Sewer District Number Two's management approach is conservative. The Board actively monitors revenues and expenses and evaluates the costs of proposed expansion projects. The board's emphasis is on providing services at the lowest cost available to customers, but to meet the demands created by Hurricane Gustav and by continued growth of the customer base, the board continually reviews the feasibility of expansion projects.

Financial Statements

LIVINGSTON PARISH SEWER DISTRICT NUMBER TWO
STATEMENT OF NET ASSETS
As of December 31, 2008

	<u>2008</u>
Assets	
Current Assets:	
Cash and Cash Equivalents - Unrestricted	\$ 204,159
Investments - Unrestricted	221,904
Receivables, Net:	
Accounts	69,710
Due From FEMA	61,413
Prepaid Insurance	46,456
Total Current Assets	<u>603,642</u>
Restricted Assets:	
Restricted Cash and Cash Equivalents	734,999
Restricted Investments	56,010
Total Restricted Assets	<u>791,009</u>
Property, Plant & Equipment	
Land	138,134
Construction in Progress	11,103
Property, Plant and Equipment, Net	9,001,056
Total Property, Plant, and Equipment	<u>9,150,293</u>
Other Assets	
Bond Issue Costs, Net	271,223
Meter Deposits	1,263
Total Other Assets	<u>272,486</u>
TOTAL ASSETS	<u>10,817,430</u>
Liabilities	
Current Liabilities (Payable From Current Assets):	
Accounts Payable	33,900
Other Accrued Payables	5,443
Total Current Liabilities (Payable From Current Assets)	<u>39,343</u>
Current Liabilities (Payable from Restricted Assets)	
Accrued Interest payable	112,313
Revenue Bonds Payable	113,602
Total Current Liabilities (Payable from Restricted Assets)	<u>225,915</u>
Long-Term Liabilities:	
Bond Payable	5,336,348
Total Long-Term Liabilities	<u>5,336,348</u>
TOTAL LIABILITIES	<u>5,601,606</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	3,316,807
Restricted for:	
Capital Projects and Debt Service	791,009
Unrestricted	1,108,008
Total Net Assets	\$ <u>5,215,824</u>

The accompanying notes are an integral part of this statement

LIVINGSTON PARISH SEWER DISTRICT NUMBER TWO
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2008

	<u>2008</u>
OPERATING REVENUES:	
Sewer Fees	\$ 824,943
Sewer #1 Maintenance Revenue	147,732
Permits & Inspection fees	9,021
User & Hook-up Fees	14,779
Impact Fees	21,470
Other Operating Income	11,640
Total Operating Revenues	<u>1,029,585</u>
OPERATING EXPENSES:	
Salaries and Wages	283,398
Payroll Taxes & Group Insurance	48,648
Per Diem	1,920
Amortization	7,620
Depreciation	361,181
Fuel/Oil Trucks	27,594
Insurance	60,151
Licenses & Permits	2,085
Office Expense	1,610
Other	6,561
Professional Fees	23,170
Repairs and Maintenance	235,885
Supplies	35,587
Telephone	16,643
Uniform Expense	4,294
Utilities	78,241
Total Operating Expenses	<u>1,194,588</u>
Operating Income (Loss)	<u>(165,003)</u>
NON-OPERATING REVENUES	
Interest Income	28,338
FEMA Reimbursement	61,413
Interest Expense	(270,632)
Storm Expense	(32,132)
Total Non-operating Revenues (Expenses)	<u>(213,013)</u>
Change in Net Assets	<u>(378,016)</u>
Total Net Assets, Beginning	<u>5,593,840</u>
Total Net Assets, Ending	<u>\$ 5,215,824</u>

The accompanying notes are an integral part of this statement

LIVINGSTON PARISH SEWER DISTRICT NUMBER TWO
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2008

Cash Flows From Operating Activities

Received From Customers	\$ 865,888
Other Receipts	159,372
Payments for Operations	(502,962)
Payments to Employees	(329,982)
Net Cash Provided by Operating Activities	<u>192,316</u>

Cash Flows From Capital and Related Financing Activities

(Payments for) Storm Expenses	(32,132)
(Payments for) Capital Aquisitions	(95,687)
Principal Proceeds from (Repayments for) Long-Term Debt	(105,218)
Interest Payments for Long-Term Debt	(273,743)
Net Cash (Used) by Capital and Related Financing Activities	<u>(506,780)</u>

Cash Flows From Investing Activities

Receipt of Interest	28,338
Proceeds from sale (Payments) for Investments	54,934
Net Cash Provided by Investing Activities	<u>83,272</u>

Net Cash Increase (Decrease) in Cash and Cash Equivalents	(231,193)
Cash and Cash Equivalents, Beginning of Year	1,170,351
Cash and Cash Equivalents, End of Year	<u>\$ 939,158</u>

Reconciliation of Cash & Cash Equivalents to the Statement of Net Assets

Cash & Cash Equivalents, Unrestricted	\$ 204,159
Cash & Cash Equivalents, Restricted	734,999
Total Cash & Cash Equivalents	<u>\$ 939,158</u>

Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities

Operating Income (Loss)	\$ (165,003)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Depreciation	368,801
(Increase) decrease in Accounts Receivable	(4,325)
(Increase) decrease in Prepaid Insurance	(14,271)
Increase (decrease) in Accounts Payable for Operating Activities	4,129
Increase (decrease) in Accounts Payable for Capital Related Financing	2,985
Net Cash Provided by Operating Activities	<u>\$ 192,316</u>

The accompanying notes are an integral part of this statement

Basic Financial Statements
Notes to the Financial Statements

LIVINGSTON PARISH SEWER DISTRICT NUMBER TWO
Denham Springs, Louisiana
Notes to the Financial Statements
As of and for the Year Ended December 31, 2008

INTRODUCTION

Livingston Parish Sewer District Number Two (the District) was created by the Livingston Parish Police Jury (now the Livingston Parish Council) on October 26, 1974, pursuant to the provisions of R.S. 33:3811, et. seq., of the Louisiana Revised Statutes of 1950.

The District is located in Denham Springs, Louisiana. The purpose of the District is to provide sanitation services to customers within the boundaries of the District. The board is composed of three board members appointed by the Livingston Parish Council. Board members are compensated for meeting attendance at the rate of \$60.00 per meeting.

Livingston Parish Sewer District Number Two was thus created and constitutes a public corporation and political subdivision of the State of Louisiana, and has all the power and privileges granted by the Constitution and statutes of this state to such subdivision, including the authority to incur debt, to issue bonds, and to levy taxes and assessments.

GASB Statement No. 14, *The Reporting Entity*, established criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. Under provisions of this Statement, the Livingston Parish Sewer District Two is considered a component unit of the Livingston Parish Council. As a component unit, the accompanying financial statements should be included within the reporting of the primary government, either blended into those financial statements or separately reported as discrete component units.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Measurement Focus and Basis of Accounting and Financial Statement Presentation

The District's financial statements are prepared on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. The District applies all Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principle Board (APB) of the Committee On Accounting Procedure, issued on or before November 30, 1989, unless those pronouncements conflict or contradict with GASB pronouncements.

These financial statements are presented in conformance with GASB Statement No. 34, *Basic Financial Statements, Management's Discussion and Analysis, for State and Local Governments*. Statement No. 34 established standards for financial reporting, with presentation requirements including a statement of net assets (or balance sheet), a statement of activities and changes in net assets, and a statement of cash flows. The District has also adopted the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for*

LIVINGSTON PARISH SEWER DISTRICT NUMBER TWO
Denham Springs, Louisiana
Notes to the Financial Statements
As of and for the Year Ended December 31, 2008

Nonexchange Transactions, that require capital contributions to the District be presented as a change in net assets.

All activities of the District are accounted for in a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprise, where the intent of the governing authority is that the cost (expenses, including depreciation) of providing services on a continuing basis be financed or recovered primarily through user charges.

Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred.

The term focus denotes what is being measured and reported in the District's operating statement. Financial operations of the District are accounted for on the flow of economic resources measurement focus. With this measurement focus, all of the assets and liabilities available to the District for the purpose of providing goods and services to the public are included on the balance sheet. The activity statement includes all costs of providing goods and services during the period.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are user charges for the services provided by the enterprise funds. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

B. Cash and Cash Equivalents

Cash includes amounts in demand deposits, interest-bearing demand deposits, and money market accounts. Cash equivalents include amounts in time deposits and those investments with original maturities of 90 days or less. Under state law, the District may deposit funds in demand deposits, interest-bearing demand deposits, money market accounts, or time deposits with state banks organized under Louisiana law or any other state of the United States, or under the laws of the United

LIVINGSTON PARISH SEWER DISTRICT NUMBER TWO
Denham Springs, Louisiana
Notes to the Financial Statements
As of and for the Year Ended December 31, 2008

C. Investments

Investments are limited by Louisiana Revised Statute (R.S.) 33:2955 and the District's investment policy. If the original maturities of investments exceed 90 days, they are classified as investments; however, if the original maturities are 90 days or less, they are classified as cash equivalents.

The following disclosures are required by GASB Statement No. 31:

- The District uses the quoted market prices to estimate the fair value of the investments.
- None of the investments are reported at amortized cost.
- There is no involuntary participation in an external investment pool.

D. Inventories

Purchases of various operating supplies are regarded as expenditures at the time purchased, and inventories of such supplies (if any) are not recorded as assets at the close of the fiscal year. As of December 31, 2008, the District had no significant inventory.

E. Prepaid Items

Payments made to vendors that will benefit periods beyond the end of the current calendar year are recorded as prepaid items. Prepaid items consist of prepaid insurance premiums.

F. Restricted Assets

Certain proceeds of the enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets because their use is limited by applicable bond covenants.

G. Capital Assets

Capital assets of the District are defined by the District as assets with an initial, individual cost of more than \$500, and an estimated useful life in excess of one year. Capital assets are recorded at either historical cost or estimated historical cost. Donated assets, including water systems donated for continued maintenance by the District, are valued at their estimated fair market value on the date donated. Depreciation of all exhaustible fixed assets is charged as an expense against operations. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, as follows:

LIVINGSTON PARISH SEWER DISTRICT NUMBER TWO
Denham Springs, Louisiana
Notes to the Financial Statements
As of and for the Year Ended December 31, 2008

All capital assets, other than land, are depreciated using the straight-line method over the following useful lives:

Description	Estimated Lives
Infrastructure assets	40
Land improvements	40
Buildings and building improvements	40
Furniture and fixtures	5-10
Vehicles	5
Equipment	3-10

The costs of normal maintenance and repairs that do not add to the value of the asset or materiality or extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

H. Compensated Absences

Employees of the District can earn leave based on the number of hours worked each pay period. At this time the District has no provisions for leave carryover; therefore, a leave accrual was not recorded in the financial statements.

In accordance with GASB-16, Accounting for Compensated Absences, no liability has been accrued for unused employee sick leave.

I. Long-Term Obligations

Long-term liabilities are recognized within the Enterprise Fund. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bond payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

J. Net Assets

GASB Statement No. 34, Basic Financial Statements, Management's Discussion and Analysis, for State and Local Governments, requires classification of net assets, the difference between the District's assets and liabilities, into three components, as described below:

LIVINGSTON PARISH SEWER DISTRICT NUMBER TWO
Denham Springs, Louisiana
Notes to the Financial Statements
As of and for the Year Ended December 31, 2008

- Invested in capital assets, net of related debt - This component of net assets consist of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, or indebtedness attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets calculation as unspent proceeds.
- Restricted - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

K. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events within the control of the municipality, which are either unusual in nature or infrequent in occurrence.

L. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that effect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

LIVINGSTON PARISH SEWER DISTRICT NUMBER TWO
Denham Springs, Louisiana
Notes to the Financial Statements
As of and for the Year Ended December 31, 2008

2. CASH AND CASH EQUIVALENTS

At December 31, 2008, the District had cash and cash equivalents (book balances) totaling \$939,158, as follows:

December 31, 2008	
Demand Deposits	\$ 204,159
Trust Funds	<u>760,373</u>
Total	<u><u>\$ 964,532</u></u>

These deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance of the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties.

At December 31, 2008, the District has \$1,127,519 in cash and cash equivalents deposits (collected bank balances), consisting of \$194,318 in demand deposits and \$760,373 in Trust Funds. The demand deposits of \$194,318 are secured from risk by \$250,000 of federal deposit insurance and the \$760,373 of Trust Funds consists of United States treasury securities not required to be collateralized.

In addition, at December 31, 2008, the District also has \$252,541 in certificates of deposits categorized as investments. The \$252,541 consists of a certificate of deposit at one bank collateralized from risk by \$250,000 of federal deposit insurance. Which leaves \$2,541 which is uncollateralized and uninsured.

Even though the pledged securities are considered uncollateralized (Category 3) under the provisions of GASB Statement 3, Louisiana Revised Statutes 39:1229 imposes a statutory requirement on the custodial bank to advertise and sell the pledged securities within 10 days of being notified by the District that the fiscal agent has failed to pay deposited funds upon demand.

LIVINGSTON PARISH SEWER DISTRICT NUMBER TWO
Denham Springs, Louisiana
Notes to the Financial Statements
As of and for the Year Ended December 31, 2008

Deposits (bank balances) secured at December 31, 2008, are as follows:

Category 1 – Insured by FDIC or collateralized with securities held by the Board or by its agent in its name.

Category 2 – Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the Board's name.

Category 3 – Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Board's name; or collateralized with no written or approved collateral agreement.

Type of Deposits	Total Bank Balance	Custody Credit Risk Category			Not Required To Be Collateralized	Total Carrying Value
		1	2	3		
Cash and Cash Equivalents	\$ 204,159	\$ 194,318	-	-	-	\$ 194,318
Certificates of Deposit <i>(With original maturities in excess of three months)</i>	252,541	250,000	-	-	-	252,541
Restricted Assets - Trust Accounts	760,373	-	-	-	\$ 760,373	760,373
Total Deposits	<u>\$ 1,217,073</u>	<u>\$ 444,318</u>	<u>-</u>	<u>\$-</u>	<u>\$ 760,373</u>	<u>\$ 1,207,232</u>

3. INVESTMENTS

Investments are categorized into these three categories of credit risk:

1. Insured or registered, or securities held by the District or its agent in the District's name.
2. Uninsured and unregistered, with securities held by the counter party's trust department or agent in the District's name.
3. Uninsured and unregistered, with securities held by the counter party, or by its trust department or agent, but not in the District's name.

All investments held by the District fall into Category 1 credit risk, defined as: "insured or registered, or securities held by the District or its agent in the District's name". In accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, all investments are carried at fair value, with the estimate of fair value based on quoted market prices.

LIVINGSTON PARISH SEWER DISTRICT NUMBER TWO
Denham Springs, Louisiana
Notes to the Financial Statements
As of and for the Year Ended December 31, 2008

4. RECEIVABLE

At December 31, 2008, the District recorded \$69,710 in customer accounts receivable. Billing services for the District are contracted with Ward 2 Water District of Livingston Parish and the City of Denham Springs. Accounts receivable at fiscal year-end includes the amounts collected but not yet remitted to the District. Customer accounts are written off as deemed uncollectible and any allowance for uncollectible accounts is deemed immaterial at fiscal year end.

5. RESTRICTED ASSETS

The following is a summary of restricted assets at December 31, 2008:

	<u>December 31, 2008</u>
Restricted Cash and Cash Equivalents	
Bond Reserve Account	\$ 377,775
Bond Contingency Account	207,965
Bond Sinking Account	155,949
Restricted Investments	
Bond Sinking Account	<u>49,320</u>
Total Restricted Assets	<u><u>\$ 791,009</u></u>

For the fiscal year ended, the District allocated \$49,320 of certificates of deposit to meet the Bond Sinking Fund deposit requirement.

LIVINGSTON PARISH SEWER DISTRICT NUMBER TWO
Denham Springs, Louisiana
Notes to the Financial Statements
As of and for the Year Ended December 31, 2008

6. CAPITAL ASSETS

A summary of changes in capital assets during the fiscal year ending December 31, 2008, is as follows:

	Beginning Balance 12/31/07	Additions and Reclassifications	Deletions and Reclassifications	Ending Balance 12/31/08
Capital Assets Being Depreciated				
Buildings	\$ 393,252	-	-	\$ 393,252
Machinery and Equipment	621,528	7,023	-	628,551
Utility System	11,877,718	88,664	-	11,966,382
Vehicles	106,357	-	-	106,357
Total Capital Assets Being Depreciated	\$ 12,998,855	\$ 95,687	-	\$ 13,094,542
Less Accumulated Depreciation	(3,732,305)	(361,181)	-	(4,093,486)
Capital Assets Being Depreciated, Net	9,266,550	(265,494)	-	9,001,056
Land	138,134	-	-	138,134
Construction in Progress	11,103	-	-	11,103
Total Capital Assets, Net	\$ 9,415,787	\$ (265,494)	-	\$ 9,150,293

During the fiscal year ending December 31, 2008, capital assets increased by \$88,664 for the LA 16 Lockhart Relocation project, and \$7,023 for panel improvements. The total of \$11,103 for construction in progress consists of accumulated costs for planned oxidation pond improvements, with construction planned for fiscal year 2009. Depreciation expense for the fiscal year ending December 31, 2008, totaled \$361,181.

LIVINGSTON PARISH SEWER DISTRICT NUMBER TWO
Denham Springs, Louisiana
Notes to the Financial Statements
As of and for the Year Ended December 31, 2008

7. LONG-TERM DEBT

The following is a summary of loan transactions of the Sewer District for the year ending December 31, 2008:

Description	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Long-Term Debt					
USDA 1984 Revenue					
Bonds, Loan 92-01	\$ 697,168	-	\$ (27,219)	\$ 669,949	\$ 28,602
Sewer Revenue Refund					
Bonds, Series 1997-B	158,000	-	(28,000)	130,000	30,000
Sewer Revenue Bonds,					
Series 2004	4,700,000	-	(50,000)	4,650,000	55,000
Total Long-Term Debt	\$ 5,555,168	-	\$ (105,219)	\$ 5,449,949	\$ 113,602

Bonds Payable as of December 31, 2008, are as follows:

	December 31, 2008
Revenue Bond \$1,047,000	
Sewer Revenue Bonds, Loan 92-01 sold to USDA	
Dated 02/28/1984 due in annual installments of principal and	
interest of \$62,077 through 02/28/2024 - interest at 5.0%	\$ 669,949
Revenue Bond \$365,000	
Sewer Revenue Refunding Bonds, Series 1997-B	
Dated 05/13/1997 due in annual installments of principal and	
interest varying from \$32,338 to \$37,800 through 02/28/2012 -	
interest at 6.0%	130,000

LIVINGSTON PARISH SEWER DISTRICT NUMBER TWO
Denham Springs, Louisiana
Notes to the Financial Statements
As of and for the Year Ended December 31, 2008

Revenue Bond \$4,650,000

Sewer Revenue Refunding Bonds, Series 2004

Dated 07/21/2004 due in annual installments of principal and

semi-annual installments of interest - annual interest rates

varying from 1.625% to 5.2%, with bonds maturing 03/01/2044

	4,650,000
	\$ 5,449,949

The annual requirements to amortize all long-term debt outstanding at December 31, 2008, including interest payments of \$5,757,489 are as follows:

Year Ending 12/31/08	USDA 1984 Revenue Bonds \$1,047,000	Series 1997-B Revenue Refunding Bonds \$365,000	Series 2004 Revenue Bonds \$4,950,000	Total
2009	\$ 62,077	\$ 37,800	\$ 282,734	\$ 382,611
2010	62,077	38,000	280,864	380,941
2011	62,077	37,080	283,794	382,951
2012	62,077	37,100	281,559	380,736
2013	62,077	-	279,249	341,326
2014 to 2018	310,385	-	1,405,289	1,715,674
2019 to 2023	310,385	-	1,403,976	1,714,361
2024 to 2028	62,077	-	1,400,913	1,462,990
2029 to 2033	-	-	1,395,179	1,395,179
2034 to 2038	-	-	1,392,580	1,392,580
2039 to 2043	-	-	1,381,070	1,381,070
2044 to 2048	-	-	277,020	277,020
Total	<u>\$ 993,232</u>	<u>\$ 149,980</u>	<u>\$ 10,064,227</u>	<u>\$ 11,207,439</u>

8. FLOW OF FUNDS, RESTRICTIONS ON USE

On February 28, 1984, the District issued \$1,047,000 of United States Farmer's Home Administration (now referred to as USDA Bonds) Sewer Revenue Bonds. The bonds were issued

LIVINGSTON PARISH SEWER DISTRICT NUMBER TWO

Denham Springs, Louisiana

Notes to the Financial Statements

As of and for the Year Ended December 31, 2008

at an annual interest rate of 5.0%, and are due in annual installments of \$62,077 through February 28, 2024.

On May 13, 1997, the District issued \$365,000 of Sewer Revenue Refunding Bonds, Series 1997-B, at an interest rate of 6.0%, with the bonds maturing on February 28, 2012.

Sewerage System Bond and Interest Sinking Fund (the Sinking Fund): Each month the District shall transfer from the Sewer Revenue Fund to the regularly designated fiscal agent bank of the Issuer (which must be a member of the Federal Deposit Insurance Corporation), monthly in advance on or before the 20th day of each month of each year a sum equal to ½ of the principal and interest falling due on the next principal and interest payment date, together with such additional proportionate sums as may be required to pay said principals and interest as the same respectively become due. Money in the Sinking Fund shall be deposited as trust funds and shall be used solely and is hereby expressly and exclusively pledged for the purpose of paying principal and interest on the bond and parity bonds. Said fiscal agent shall make available from the revenue bond sinking fund to the paying agent such funds as are available from the Sinking Fund, at least ten days in advance of the date on which each payment of principal or interest falls due, funds fully sufficient to pay promptly the principle and interest so falling due on such date. At fiscal year end, all required bond and interest installments for the District had been made as required, and the Sinking Fund was fully funded.

Sewerage System Revenue Bond Reserve Fund (the Reserve Fund): Each month the District must transfer into the Reserve fund, monthly in advance on or before the 20th day of each month of each year, a sum as equal to 5% of the sum required by applicable bond covenants, such payments to continue until an amount of money has been accumulated in the Reserve Fund equal to the highest combined principal and interest requirements for a succeeding twelve (12) month period on such bonds payable from the Reserve Fund. The amount that must be deposited each month to the Reserve Fund is equal to 5% of the required monthly interest and principal installments for outstanding parity bonds.

The money in the Reserve Fund is to be retained solely for the purpose of paying the principals of interest on bonds payable from the Sinking Fund as to which there would otherwise be default. In the event that additional pari passu bonds are issued hereafter in the manner provided by the resolution, there shall be transferred from the Sewerage System Revenue Fund into the Revenue Bond Sinking Fund, monthly or annually, such amounts (as may be designated in the resolution authorizing the issuance of such pari passu bonds) as will increase the total amount on deposit in the Reserve Fund within a period not exceeding five (5) years from the day of delivery of the parity bonds to a sum equal to the highest combined principal and interest requirements in any succeeding fiscal year on all outstanding bonds issued pursuant to the terms of this resolution, including such pari passu bonds. At fiscal year end, all required Reserve Fund monthly deposits for the District had been made as required, and the reserve Fund was fully funded.

Sewerage System Depreciation and Contingency Fund (the Depreciation and Contingency Fund): Each month the District shall transfer from the Sewerage System Revenue Fund an amount monthly in advance on or before the 20th day of each month of each year beginning

LIVINGSTON PARISH SEWER DISTRICT NUMBER TWO

Denham Springs, Louisiana

Notes to the Financial Statements

As of and for the Year Ended December 31, 2008

with the first month following completion of the improvements and extensions to the System financed with the proceeds of the Bonds, the sum equal to 5% of the amount, but not less than \$168 per month for each parity bond, to be paid monthly into the Sinking Fund. All monies in the Depreciation and Contingency Fund may be drawn on and used by the District for the purpose of paying the cost of unusual or extraordinary maintenance, repairs, replacements and extensions, and the costs of improvements to the Sewerage System will either enhance its revenue-producing capacity or provide a higher degree of service. In the event the available balances in the Revenue Bond Sinking Fund and Sewerage System Revenue Bond Reserve Fund are insufficient, monies on deposit in the Depreciation and Contingency Fund shall be transferred in such amounts as are necessary to eliminate the deficiencies, respectively, in the Revenue Bond Sinking Fund and Reserve Fund. At fiscal year end, all required Depreciation and Contingency Fund monthly deposits for the District had been made as required, and the Depreciation and Contingency Fund was fully funded.

Bad Debt Coverage Factor: With the issuance of the 2004 Sewer Revenue Bonds, the District (the Issuer) covenants to fix, establish, maintain and collect, so long as any principal and interest is unpaid on the Bonds, such rates, fees rents or other charges for the services and facilities of the System, and all parts thereof, and to revise the same from time to time whenever necessary, as will always provide revenues in each fiscal year sufficient to (i) pay the reasonable and necessary expenses of operating and maintaining the System in each fiscal year; (ii) to provide Net Revenues in an amount sufficient to make payments deposits in the sinking Fund and the Reserve Fund established by the Prior Bond Resolutions and maintained by the Bond Resolution for the payment of the principal and interest on the bonds, the Parity Bonds, and any Additional Parity Obligations issued hereafter; (iii) provide Net Revenues in an amount equal to one hundred twenty-five percent (125%) of the required deposits to the Sinking Fund for the security and payment of the Bonds and the Parity Bonds; (iv) make all other payments required by the Bond Resolution; and (v) pay all other obligations or indebtedness payable out of the Revenues for such fiscal year. The issuer further covenants that such rates, fees and rents or other charges shall not at any time be reduced so as to be insufficient to provide adequate revenues for such purposes.

For the fiscal year ending December 31, 2008, the District recorded "Net Revenues" exceeding the applicable 125% bond covenant.

9. RESTRICTED AND DESIGNATED NET ASSETS

At December 31, 2008, Livingston Parish Sewer District Two recorded \$152,345 in Restricted Net Assets (Restricted for Capital Activity and Debt Service), representing the District's funds restricted by revenue bond debt covenants, contracts with customers for meter deposits, and the unspent portion of capital debt related to amounts restricted for capital projects less liabilities related to these restricted funds. A liability relates to restricted assets if the asset results from incurring the liability or if the liability will be liquidated with the restricted assets.

10. INTERGOVERNMENTAL AGREEMENT

Billing services for the District are contracted to the City of Denham Springs and Waterworks District No. 2 of Livingston Parish. In addition, the District provides sewer maintenance services,

LIVINGSTON PARISH SEWER DISTRICT NUMBER TWO
Denham Springs, Louisiana
Notes to the Financial Statements
As of and for the Year Ended December 31, 2008

primarily with Livingston Parish Sewer District No. 1, and recorded a total of \$147,732, in outside maintenance revenue for the fiscal year ending December 31, 2008.

11. RISK MANAGEMENT

The District is exposed to various risks of loss related to theft, damage, or destruction of assets, torts, injuries, natural disasters, and many unforeseeable events. The District purchases commercial insurance policies and bonds for any and all claims related to the aforementioned risks. The District's payment of the insurance policy deductible is the only liability associated with these policies and bonds.

12. LITIGATION

According to the District's legal counsel, there is no pending litigation against Livingston Parish Sewer District Two.

13. OTHER MATTERS

At the time of the issuance of these financial statements there were ongoing investigations conducted by multiple levels of governmental authorities. The specifics of the matters under investigation were not available for inclusion in these financial statements. It is our understanding that one or more reports will be issued upon conclusion of those investigations.

OTHER SUPPLEMENTAL INFORMATION

LIVINGSTON PARISH SEWER DISTRICT NUMBER TWO
BUDGET TO ACTUAL COMPARISON
For the Year Ended December 31, 2008

	2008 Budget	2008 Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES:			
Sewer Fees	\$ 822,000	\$ 824,943	\$ 2,943
Sewer #1 Maintenance Revenue	150,000	147,732	(2,268)
Permits & Inspection fees	8,000	9,021	1,021
User & Hook-up Fees	16,000	14,779	(1,221)
Impact Fees	22,000	21,470	(530)
Other Operating Income	1,000	11,640	10,640
Total Operating Revenues	<u>1,019,000</u>	<u>1,029,585</u>	<u>10,585</u>
OPERATING EXPENSES:			
Salaries and Wages	250,000	283,398	(33,398)
Payroll Taxes & Group Insurance	51,000	48,648	2,352
Per Diem	1,800	1,920	(120)
Amortization	7,500	7,620	(120)
Depreciation	348,000	361,181	(13,181)
Fuel/Oil Trucks	28,000	27,594	406
Insurance	85,000	60,151	24,849
Licenses & Permits	2,100	2,085	15
Office Expense	1,600	1,610	(10)
Other	21,000	6,561	14,439
Professional Fees	25,000	23,170	1,830
Repairs and Maintenance	204,500	235,885	(31,385)
Supplies	27,000	35,587	(8,587)
Telephone	16,000	16,643	(643)
Uniform Expense	4,000	4,294	(294)
Utilities	85,000	78,241	6,759
Total Operating Expenses	<u>1,157,500</u>	<u>1,194,588</u>	<u>(37,088)</u>
Operating Income (Loss)	<u>(138,500)</u>	<u>(165,003)</u>	<u>(26,503)</u>
NON-OPERATING REVENUES			
Interest Income	-	28,338	(28,338)
FEMA Reimbursement	63,000	61,413	(1,587)
Interest Expense	(272,000)	(270,632)	1,368
Storm Expense	(33,000)	(32,132)	868
Total Non-operating Revenues (Expenses)	<u>(242,000)</u>	<u>(213,013)</u>	<u>(27,689)</u>
Change in Net Assets	(380,500)	(378,016)	2,484
Total Net Assets, Beginning	<u>5,593,840</u>	<u>5,593,840</u>	<u>-</u>
Total Net Assets, Ending	<u>5,213,340</u>	<u>5,215,824</u>	<u>2,484</u>

The accompanying notes are an integral part of this statement

Schedule 2

**Livingston Parish Sewer District Two
Schedule of Insurance
For the Year Ended December 31, 2008**

Insurance Company/ Policy Number	Coverage	Amount	Period
American Alternative Insurance Corp (AAIC) Policy # SD-IS-SP 9153563-1/0	Commercial Property General Liability: General Aggregate Each Occurrence Management Liability: General Aggregate Each "Wrongful Act" or Offense Equipment Floater (As Scheduled)	 \$6,736,500 \$3,000,000 \$1,000,000 \$3,000,000 \$1,000,000 \$ 164,687	10/31/2008 to 10/31/2009
CNA Surety Co. Bond # 0601 18279338	 Employee Dishonesty (Position Schedule)	 \$ 310,000	 09/17/2008 to 09/17/2009
Louisiana Workers Comp Corp Policy # CAP 15296-B	Workers Comp at Statutory Limitations: Employers' Liability (each accident) Employees' Liability (each accident)	 \$ 100,000 \$ 100,000	03/24/08 to 03/24/2009
Trinity Universal Policy # CAP 0012117102	Commercial Auto: Liability (Comb. Single Limit- CSL) Uninsured Motorist (CSL) Physical Damage (As Scheduled)	 \$ 500,000 \$ 500,000 	 03/16/2008 to 03/16/2009

Note: The Employee Dishonesty Bond described above is issued separately for Livingston Parish Sewer District Number One. Other policies are issued jointly for Livingston Parish Sewer District Number One and Livingston Parish Sewer District Number Two.

Schedule 3

**Livingston Parish Sewer District Number Two
Schedule of Compensation Paid to Board of Commissioners
For the Year Ended December 31, 2008**

Name and Title/ Contact Number	Address	Compensation Received	Term Expiration
Kenneth Bingham, President (225) 665-6895	8850 Old Winchester Rd. Denham Springs, LA 70726	\$ 540	Until Re-appointed
Shevis Ball (225) 665-8836	39765 LA Hwy 16 Denham Springs, LA 70726	720	Until Re-appointed
J. Kyle Parker (225) 665-3851	36426 Lucas Drive Denham Springs, LA 70726	660	Until Re-appointed
		<u>\$ 1,920</u>	

Schedule 4

**Livingston Parish Sewer District Number Two
Schedule of Sewer Rates
For the Year Ended December 31, 2008**

Effective June 1, 2008, a \$300.98 Tap Fee (plus road bore) plus additional Impact Fee as indicated below:

Sewer Fees	Impact Fee	Tap Fees
\$9.90 - First 2,000 Gallons	\$ 1,547	3/4" Tap
\$2.52 - Per next 1,000 Gallons of Water up to 5,000 Gallons	\$ 1,602	1" Tap
\$2.12 - Per next 1,000 Gallons of Water up to 10,000 Gallons	\$ 4,776	1 & 1 1/2" Tap
\$1.37 - Per next 1,000 Gallons of Water over 10,000 Gallons	\$ 19,923	2" Tap
	\$ 21,299	3" Tap
	\$ 51,653	4" Tap
	\$ 109,926	6" Tap
	\$ 314,819	8" Tap

Schedule 5

**Livingston Parish Sewer District Number Two
Schedule of Sewer Customers
For the Year Ended December 31, 2008**

As of December 31, 2008, the District had the following number of customers:

	December 31, 2008
Customers	<u>964</u>
Total Customers	<u><u>964</u></u>

OTHER REPORTS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

The following pages contain a report on compliance with laws and regulations and on internal control over financial reporting as required by *Government Auditing Standards*, issued by the Comptroller General of the United States. This report is based solely on the audit of the financial statements and includes, where appropriate, any reportable conditions and/or material misstatements in internal control or compliance matters that would be material to the presented financial statements.

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

**Board Members of
Livingston Parish Sewer District Two
Denham Springs, Louisiana**

I have audited the basic financial statements of **Livingston Parish Sewer District Two**, Denham Springs, Louisiana, a component unit of the Livingston Parish Council, as of and for the year ended December 31, 2008, and have issued my report thereon dated August 10, 2009. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the **Livingston Parish Sewer District Two's** internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the **Livingston Parish Sewer District Two's** internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the **Livingston Parish Sewer District Two's** internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Livingston Parish Sewer District Two's** financial statements are free of material misstatement, I performed tests of compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed one instance of noncompliance that are required to be reported under *Government Auditing Standards* and the Louisiana Governmental Audit Guide and which is identified as 2008-1 in the accompanying Schedule of Findings and Questioned Costs.

This report is intended solely for the information and use of **Livingston Parish Sewer District Two's** management, pass-through entities, and the Legislative Auditor, and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Leroy J. Chuatz

Certified Public Accountant, APAC
August 10, 2009

LIVINGSTON PARISH SEWER DISTRICT NUMBER TWO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2008

I have audited the basic financial statements of Livingston Parish Sewer District Number Two as of and for the year ended December 31, 2008, and have issued my report thereon dated August 10, 2009. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. My audit of the financial statements as of December 31, 2008, resulted in an unqualified opinion.

Section I Summary of Auditor's Reports

A. Report on Internal Control and Compliance Material to the Financial Statements

Internal Control

Material Weaknesses ☐ Yes ☒ No Significant Deficiencies ☐ Yes ☒ No

Compliance

Compliance Material to Financial Statements ☒ Yes ☐ No

B. Federal Awards ☒ Not Applicable

Internal Control

Material Weaknesses ☐ Yes ☐ No Reportable Conditions ☐ Yes ☐ No

Type of Opinion On Compliance Unqualified ☐ Qualified ☐
For Major Programs Disclaimer ☐ Adverse ☐

Are there findings required to be reported in accordance with Circular A-133, Section .510(a)?
☐ Yes ☐ No

Was a management letter issued? ☐ Yes ☐ No

C. Identification of Major Programs:

CFDA Number(s)

Name of Federal Program (or Cluster)

Dollar threshold used to distinguish between Type A and Type B Programs: \$ _____

Is the auditee a 'low-risk' auditee, as defined by OMB Circular A-133? ☐ Yes ☐ No

LIVINGSTON PARISH SEWER DISTRICT NUMBER TWO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended December 31, 2008

Section II Financial Statement Findings

2008-1 Timely Issuance of Audited Financial Statements
NON COMPLIANCE

Condition

Louisiana Revised Statute 24:517 requires that audited financial statements be issued within six months of the close of the fiscal year.

Finding

The audited financial statements of the year ended December 31, 2008, were not issued timely as required by the above statute.

Recommendation

The District should issue its audited financial statements within six months of the close of the fiscal year for all future periods.

Management's Response

Management contracted with an accounting firm to compile generally accepted financial statements however the firm did not finish the compilation until mid June, 2009. Management intends to require earlier completion of the compilation for the year 2009.

Section III Federal Award Findings and Questioned Costs

No Section III Findings.

LIVINGSTON PARISH SEWER DISTRICT NUMBER TWO
SCHEDULE OF PRIOR YEAR FINDINGS
For the Year Ended December 31, 2008

**SECTION I INTERNAL CONTROL AND COMPLIANCE MATERIAL TO FINANCIAL
STATEMENTS**

2007-1 It was found that there was no ethics violation.

SECTION II INTERNAL CONTROL AND COMPLIANCE MATERIAL TO FEDERAL AWARDS

No Section II Findings.

SECTION III MANAGEMENT LETTER

No Section III Findings.

LEROY J. CHUSTZ, CPA, APAC

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DENHAM SPRINGS, LA 70727
225/667-2700
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August 10, 2009

To the Board of Commissioners of
Livingston Parish Sewer District Two

I have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Livingston Parish Sewer District Two for the year ended December 31, 2008, and have issued my report thereon dated August 10, 2009. Professional standards require that I provide you with the following information related to my audit.

My Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in my engagement letter dated July 21, 2008, my responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. My audit of the financial statements does not relieve you or management of your responsibilities.

As a part of my audit, I considered the internal control of Livingston Parish Sewer District Two. Such considerations were solely for the purpose of determining my audit procedures and not to provide any assurance concerning such internal control.

As a part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I performed tests of Livingston Parish Sewer District Two's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of my tests was not to provide an opinion on compliance with such provisions.

My responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

I am responsible for communicating significant matters related to the audit that are, in my professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, I am not required to design procedures specifically to identify such matters.

My responsibility for other information in documents containing the entity's financial statements and report does not extend beyond the financial information identified in the report. I do not have an obligation to perform any procedures to corroborate other information contained in these documents, such as management's discussion and analysis and supplementary budgetary statements.

Planned Scope and Timing of the Audit

I performed the audit according to the planned scope and timing previously communicated to you in my Entrance Memorandum about planning matter on November 19, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of my engagement letter, I will advise management about the appropriateness of accounting policies and their application. The significant accounting policy used by Livingston Parish Sewer District Two is described in Note 1 to the financial statements; no new accounting policies were adopted and the application of existing policies was not changed during 2008. I noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the depreciation expense and useful life of capital assets is based on policy guidelines. I evaluated the key factors and assumptions used to develop the capital asset policy in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of capital assets and the related depreciation expense. Since 85% of total assets are comprised of depreciable capital assets, the estimate of useful lives is particularly significant.

Difficulties Encountered in Performing the Audit

I encountered no significant difficulties in dealing with management in performing and completing my audit.

Corrected and Uncorrected Misstatements

Professional standards require me to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Aggregated adjustments amount to \$6,571.22 and were not considered in the accompanying financial statements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to my satisfaction, that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of my audit.

Management Representations

I have requested certain representations from management that are included in the management representation letter dated August 10, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the government unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, my professional standards require the consulting accountant to check with me to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the government unit's auditor. However, these discussions occurred in the normal course of my professional relationship and my responses were not a condition to my retention.

This information is intended solely for the use of the members of the board and management of Livingston Parish Sewer District Two and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Leroy J. Chustz

Leroy J. Chustz, CPA, APAC

August 10, 2009